

# Consensus Revenue Forecast and Receipts Update

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Interim Joint  
Committee on  
Appropriations and  
Revenue

November 25, 2003

# Updates

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- October Consensus Revenue Forecast
  - Economic Outlook
  - Preliminary Estimates
    - General Fund
      - What's In and What's Not
    - Road Fund
    - Final Estimates by 15<sup>th</sup> Legislative Day
- FY 04 Receipts
  - General Fund
  - Road Fund

# ***Selected U.S. and Kentucky Economic Indicators FY04***

	<b>Jan 03</b>	<b>Sep 03</b>
<b>U.S. Real GDP</b>	<b>4.4%</b>	<b>3.5%</b>
<b>Rate of Inflation</b>	<b>2.2%</b>	<b>1.6%</b>
<b>Consumer Sentiment</b>	<b>93.1</b>	<b>91.1</b>
<b>Personal Income</b>		
➤ <b>U.S.</b>	<b>6.0%</b>	<b>4.3%</b>
➤ <b>Kentucky</b>	<b>4.8%</b>	<b>3.6%</b>
<b>Nonagricultural Employment</b>		
➤ <b>U.S.</b>	<b>1.8%</b>	<b>0.4%</b>
➤ <b>Kentucky</b>	<b>1.4%</b>	<b>0.5%</b>

# ***Selected U.S. and Kentucky Economic Indicators***

	<b><i>FY05</i></b>		<b><i>FY06</i></b>	
	<b>Jun 03</b>	<b>Sep 03</b>	<b>Jun 03</b>	<b>Sep 03</b>
<b>U.S. Real GDP</b>	<b>4.0%</b>	<b>4.1%</b>	<b>3.1%</b>	<b>3.5%</b>
<b>Rate of Inflation</b>	<b>1.9%</b>	<b>1.5%</b>	<b>2.3%</b>	<b>1.7%</b>
<b>Consumer Sentiment</b>	<b>92.2</b>	<b>91.7</b>	<b>90.8</b>	<b>89.8</b>
<b>Personal Income</b>				
➤ <b>U.S.</b>	<b>5.4%</b>	<b>5.5%</b>	<b>5.4%</b>	<b>5.3%</b>
➤ <b>Kentucky</b>	<b>5.4%</b>	<b>5.1%</b>	<b>5.5%</b>	<b>4.9%</b>
<b>Nonagricultural Employment</b>				
➤ <b>U.S.</b>	<b>2.1%</b>	<b>2.2%</b>	<b>1.8%</b>	<b>1.8%</b>
➤ <b>Kentucky</b>	<b>2.3%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>1.6%</b>

**General Fund**  
**Consensus Forecast for FY04 to FY06**  
(millions of dollars)  
**October 2003**

	<b>FY04</b>		<b>FY05</b>		<b>FY06</b>	
	<b>Estimate</b>	<b>%Chg</b>	<b>Estimate</b>	<b>%Chg</b>	<b>Estimate</b>	<b>%Chg</b>
Sales & Use	2,382.7	0.8	2,494.7	4.7	2,609.4	4.6
Individual Income	2,733.5	-0.5	2,878.4	5.3	3,017.8	4.8
Corporation Inc & Lic	444.1	3.1	496.5	11.8	502.7	1.2
Coal Severance	140.3	-1.0	138.9	-0.9	135.8	-2.2
Property	446.5	2.7	465.1	4.1	485.9	4.5
Lottery	163.8	-4.2	160.5	-2.0	157.8	-1.7
Other	523.2	5.7	476.2	-9.0	483.2	1.5
<b>Total General Fund</b>	<b>6,834.1</b>	<b>0.7</b>	<b>7,110.3</b>	<b>4.0</b>	<b>7,392.7</b>	<b>4.0</b>

# FY 04 Consensus Forecasting Group October Estimates

\$ Millions

	<b>Budgeted Estimate</b>	<b>Oct. CFG Estimate</b>	<b>Difference</b>
Sales & Use	\$ 2,472.7	\$ 2,382.7	\$ (90.0)
Individual Income	\$ 2,983.0	\$ 2,733.5	\$ (249.5)
Corp. Income and License	\$ 404.1	\$ 444.1	\$ 40.0
Coal Severance	\$ 140.6	\$ 140.3	\$ (0.3)
Property	\$ 444.3	\$ 446.5	\$ 2.2
Lottery	\$ 148.9	\$ 163.8	\$ 14.9
Other	\$ 502.9	\$ 523.2	\$ 20.3
<b>Total</b>	<b>\$ 7,096.5</b>	<b>\$ 6,834.1</b>	<b>\$ (262.4)</b>

# FY 04 Budget Implications

(\$ Millions)	
<b>The Problem:</b>	
Estimated CFG Revenue Shortfall	\$ 262.4
Unbudgeted Necessary Government Expenses	\$ 15.0
Unspecified Budgeted Lapse	\$ 2.9
Vetoed Fund Transfer of Emergency Repair, Maintenance, and Replacement Fund (KRS 45.780)	\$ 5.5
Increased Dedication to KEES due to Increase in Lottery Estimate	\$ 1.3
Increased Dedication to LGEDF and LGEAF due to Increase in Natural Gas and Oil Production Rev	\$ 2.0
Unspecified Management Savings	\$ 15.0
Total Budget Problem	\$ 304.1
<b>Potential Solutions:</b>	
Federal Fiscal Relief	\$ 68.7
Budget Reserve Trust Fund	\$ 54.8
Unused Salary Compensation Fund Balance	\$ 3.9
Debt Service Savings due to Lower Interest Rates and Timing of Bond Issues	\$ 13.0
Unspecified Management Savings Lapses	\$ 15.0
<b>Other Cash Available (Unspecified Lapses, Fund Transfers)</b>	<b>?</b>
Total Potential Solutions Without Reducing Program Appropriations	\$ 155.4
Unidentified Appropriation Reductions Which Would Directly Impact Services	\$ 148.7

# FY 04 Budget Implications

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- Sources of Additional Funds (\$149 Million)
  - Reviewing Agency Budget Requests
    - Restricted Funds
    - Off-Budget Accounts
    - Potential General Fund Lapses
- % Reductions To Capture \$149 Million
  - Exempt Only Debt Service 2.1%
  - Exempt Debt Service & K-12 3.8%
  - Exempt Debt Service & Medicaid 2.4%
  - Exempt Debt Service, K-12 & Medicaid 4.7%



# FY 04 - 06 General Fund CFG

## Preliminary Estimate

\$ Millions

	Budgeted	<b>Estimate</b>	Budget vs. Estimated	Growth over Prior Year Actual (Budgeted)	Growth over October Estimate
FY 2004	\$ 7,096.5	<b>\$ 6,834.1</b>	\$ (262.4)	\$ 50.6	n/a
FY 2005	n/a	<b>\$ 7,110.3</b>	n/a	\$ 13.8	\$ 276.2
FY 2006	n/a	<b>\$ 7,392.7</b>	n/a	n/a	\$ 282.4

# What's In the Estimates?

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- Expiration of Enterprise Zones
  - \$32.7 Million in FY 05
  - \$38.2 Million in FY 06
- Impact of Illinois Tool Works Case
  - \$60.3 Million in FY 05
  - \$54.2 Million in FY 06

# What's Not in the Estimates?

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- Extension of Revenue Measures In HB 269 – the Appropriations Act
  - Eliminate Deduction of Income Tax Paid to Foreign Countries
  - Sales Tax on Unbundled Transmission of Natural Gas
  - Limit on Vendor Compensation
    - Sales Tax
    - Cigarette Tax
- Treatment of Abandoned Property Receipts

# Revenue Measures in the Budget

\$ Millions

	FY 05	FY 06
Eliminate Deduction of Income Tax Paid to Foreign Countries	\$ 3.5	\$ 3.6
Restore Sales Tax to Unbundled Transmission of Natural Gas	\$ 6.0	\$ 7.0
Limit Sales Tax Vendor Compensation to \$1,500 Per Reporting Period	\$ 7.1	\$ 7.4
Limit Cigarette Tax Vendor Compensation	\$ 0.9	\$ 0.9
Race Track Credits	\$ (1.5)	\$ (1.5)
Total	\$ 16.0	\$ 17.4

# Abandoned Property Receipts

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## ■ KRS 393.015

“Seventy-Five percent (75%) of the balance of the abandoned property funds shall be available for support of the Commonwealth postsecondary education prepaid tuition trust fund. Transfers from the abandoned property fund to the trust fund are authorized in order to meet any unfunded liability as determined by the board.”

- Suspended by HB 269 for FY 03 and FY 04
- Recognized by CFG for FY 05 and FY 06
- \$4.5 Million Each Year

# Potential Adjustments to Revenue Estimates

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\$ Millions

	<b>FY 05</b>	<b>FY 06</b>
Extension of Enterprise Zones	\$ (32.7)	\$ (38.2)
Reversal of ITW Case	\$ (60.3)	\$ (54.2)
Revenue Measures	\$ 16.0	\$ 17.4
Total Adjustments	\$ (77.0)	\$ (75.0)

**Road Fund**  
**Consensus Forecast for FY04 to FY06**  
(millions of dollars)  
**October 2003**

	<b>FY04</b>		<b>FY05</b>		<b>FY06</b>	
	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Motor Fuels & MF Use/Surtax	458.5	1.0	471.5	2.8	479.2	1.6
Motor Vehicle Usage & Rental	442.5	2.2	454.3	2.7	462.3	1.8
License & Privilege (excl. WD)	107.5	12.4	106.5	-0.9	109.7	3.0
Weight Distance Tax/Surtax	78.9	2.6	83.6	6.0	87.6	4.8
Tolls	7.0	-47.4	6.2	-11.4	6.3	1.6
Investment	10.8	-63.1	2.5	-76.7	3.5	40.0
Other	20.9	-1.9	22.0	5.3	21.3	-3.2
<b>Total Road Fund</b>	<b>1,126.1</b>	<b>0.3</b>	<b>1,146.6</b>	<b>1.8</b>	<b>1,169.9</b>	<b>2.0</b>

# FY 04 CFG Road Fund

## October Estimates

\$ Millions

	<b>Budgeted Estimate</b>	<b>Oct. CFG Estimate</b>	<b>Difference</b>
Motor Fuels & MF Use/Surtax	\$ 465.2	\$ 458.5	\$ (6.7)
Motor Vehicle Usage & Rental	\$ 442.4	\$ 442.5	\$ 0.1
License & Privilege (excl. WD)	\$ 110.5	\$ 107.5	\$ (3.0)
Weight Distance Tax / Surtax	\$ 81.1	\$ 78.9	\$ (2.2)
Tolls	\$ 13.7	\$ 7.0	\$ (6.7)
Investment	\$ 5.5	\$ 10.8	\$ 5.3
Other	\$ 20.8	\$ 20.9	\$ 0.1
<b>Total</b>	<b>\$ 1,139.2</b>	<b>\$ 1,126.1</b>	<b>\$ (13.1)</b>



# FY 04 General Fund Receipts

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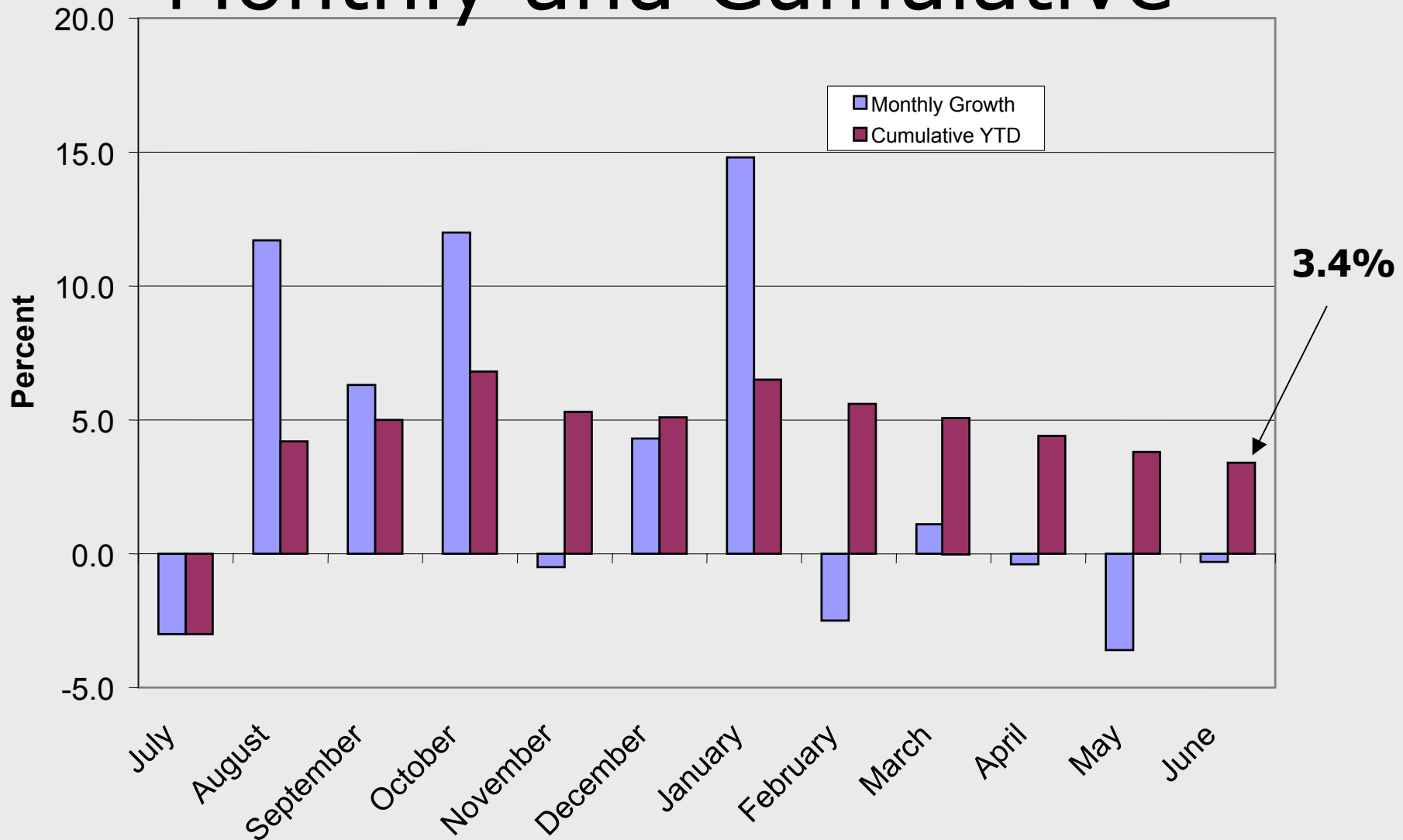
- Year To Date Receipts Down 2%
- Budgeted Growth of 4.6%
- Need 7.9% Growth for Rest of Year to Meet Budgeted Revenues
  - Need 9.3% Growth in Sales & Use Tax
  - Need 11.6% Growth in Income Tax

# FY 04 General Fund Receipts

\$ Millions

	July - Oct.	July - Oct.		
	FY 2003	FY 2004	% Change	% Growth Needed to Meet Budget
Sales & Use	\$ 851.6	\$ 819.3	-3.8%	9.3%
Individual Income	\$ 908.2	\$ 931.9	2.6%	11.6%
Corporate Income and License	\$ 156.4	\$ 109.9	-29.7%	7.3%
Coal Severance	\$ 49.3	\$ 46.4	-5.9%	2.0%
Property	\$ 72.7	\$ 59.8	-17.8%	6.2%
Lottery	\$ 53.0	\$ 55.8	5.3%	-21.1%
Other	\$ 138.8	\$ 162.5	17.1%	-4.4%
Total	\$ 2,230.1	\$ 2,185.5	-2.0%	7.9%

# FY 03 General Fund Growth Monthly and Cumulative



# FY 04 Road Fund Receipts

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- Year To Date Receipts Up 2.0%
- Budgeted Growth of 1.4%
- Need 1.2% Growth for Rest of Year to Meet Budgeted Revenues

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